BACKGROUNDER

WHAT PROVINCIAL AUDITORS HAVE SAID ABOUT P3S

Provincial auditors across the country have regularly questioned the methodology for comparing P3s with more traditional procurement.

Provincial auditors are independent officers of legislative assemblies who audit government finances to ensure that public monies are spent in a proper and accountable manner.

Very few P3s have been reviewed by provincial auditors. When they do examine them, auditors find that P3s cost more than traditional public projects, use questionable methodology, do not transfer risk and lack accountability.

Ontario

The Ontario Auditor General determined that the William Osler Centre (P3 hospital) in Brampton could have been built for $200 million less though traditional public financing. He also found that the cost of the public option was overstated by more than $600 million and that there was a high cost for advisors ($34 million). He wrote:

> Governments do have the capacity and the option of financing and typically obtain a lower debt interest rate than private-sector borrowers do. The province's 5.45% cost of borrowing at the time the agreement was executed was cheaper than the weighted average cost of capital charged by the private-sector consortium.
>
> Had the province financed the design and construction costs under the same terms as the private-sector partner but used its lower rate, we estimate that the savings in financing costs would be approximately $200 million ($107 million in 2004 dollars) over the term of the agreement. *(*Auditor General of Ontario, 2008 Annual Report, Chapter 3.03 *Brampton Civic Hospital Public-private Partnerships Project*, page 115.)

Quebec

In 2010, the provincial auditor of Quebec found that the Montreal University Health Centre (MUHC) P3 cost more than the public option, and that the analysis used to compare the P3 model to a convention public model was extremely faulty. Instead of the P3 model saving $33 million, the provincial auditor found that the public model would have saved $10 million. The auditor's special report to the National Assembly also found that there was a cost overrun of over $108 million to the original price tag of $5.2 billion.

Not only that, a number of the key people involved in the McGill University hospital P3 have been charged with corruptions associated with this project. In 2012 this project received the gold award in project financing from the Canadian Council for Public-Private Partnerships.

Warrants have been issued for the arrest of former MUHC CEO Arthur Porter for conspiracy, taking secret commissions and money laundering associated with this project. Pierre Duhaime, former

CEO of SNC Lavalin has also been charged with fraud, money laundering, secret commissions and counterfeit. As with many P3s, companies associated with this project were based in tax havens.

Nova Scotia

In 2010 the Auditor General of Nova Scotia reported on his review of 39 P3 schools in that province. He cited numerous and significant problems with the administration of the contracts, notably the absence of child abuse registry and criminal records checks of sub-contractors. Many of the P3 companies subcontracted work to other companies without ensuring adequate safety checks.

The auditor concluded that "[t]he terms of the service contracts are not adequate to ensure public interest is protected... The lack of these significant contract terms impairs the Department's ability to hold the developers accountable and effectively manage the contracts." (p. 37)

He also noted that risk was transferred back to government and developers were being paid twice for the service, resulting in a deficit for the local school board:

> Over the 20 year life of the contracts the estimated difference in payments between the developers and regional school boards would be approximately $52 million. In addition, any value government achieved through the transfer of risks for the operation and maintenance of the schools by signing the service contracts was not realized because those risks were transferred back to the government. Cape Breton-Victoria Regional School Board's subcontract arrangements with one of the developers resulted in the Board incurring a deficit of approximately $21,000 ... This is equivalent to government paying the $21,000 twice, as the developer has already been paid by the Department to provide this service. (p.41)

New Brunswick

In 1998, the Auditor General of New Brunswick reviewed two P3s in that province: Evergreen school and Wakenhut's Miramichi Youth Facility.

The Department of Finance had boasted that the P3s would provide 7 to 15 percent savings on the design and construction, that capital financing to the private partner was very close to the government's long term borrowing rate and that major capital repair and replacement risk would be eliminated (sound familiar?).

The Auditor concluded:

"Using the Department of Finance's own figures, the capital cost of the Evergreen School would have been $596,576 less had the Province done the work itself. Our adjustments increased the difference to $774,576." (p.185)

The Auditor also wrote:

> The Department of Finance estimated operating savings, in the first year of operation, of $19,536 by engaging Wakenhut. Our adjustments have the effect of

> making Wackenhut more expensive by $51,073 in the first year ... We conclude that the total cost of the Miarmichi Youth Facility would have been less under the traditional method than under the private sector arrangement ...We estimate the cost to the Province of financing through Wackenhut to be $700,000. (p. 186)

Canada

In 1995, the Auditor General of Canada reviewed the Confederation Bridge P3 project, which is often listed as a success story by P3 proponents. The Auditor General had major concerns with the "complex financing" of the project and concluded that the construction cost $45 million more than if the government had directly borrowed the money.

Saskatchewan

In 2010, the Ministry of Health signed a Memorandum of Understanding with Amicus Health Care Incorporated to build a 100-bed long term care facility in Saskatoon, without prior agreement from the health region. Although neither the government nor the provincial auditor called this arrangement a P3, it was by all definitions a P3: Amicus financed 100% of the capital costs and receives monthly capital and operating lease payments from the province over seven years.

The Provincial Auditor criticized the absence of a cost benefit analysis:

> The proposed daily capital rate is higher than other affiliates [nursing homes] because of Amicus borrowing 100% of the capital required for construction. We were unable to obtain the basis for calculating this rate for Amicus. As well, neither Health nor Saskatoon could provide us any written analysis to support that funding long-term beds in this new way is cost effective for the Province. (p. 298)

The Auditor also noted that once the construction was completed, the Saskatoon Health Region "assumes the risk over debt repayment and the operation of the new facility." (p. 294)

Dr. John Loxley also reviewed what little information was disclosed about the Amicus deal and concluded that private financing would cost $11 to $20 million more than if the province had built the facility.